

## THE MORROW & CO. PROMISE:

At Morrow & Co. LLC, our theory of practice centers on client satisfaction. To this end, we promise that you, our client comes FIRST. We strive to uphold this promise by:

- Being Friendly
- Acting with Integrity
- Being Responsible
- Providing Outstanding Service
- Being Timely

By putting you first, we make sure that we are  
ACCOUNTING FOR YOUR NEEDS™.

CLIENT:	Rural Water District No. 4
PROJECT:	Financial Statements
PERIOD:	December 31, 2015

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rural Water District No. 4  
Sedgwick County, Kansas

**Report on the Financial Statements**

We have audited the accompanying financial statements of **Rural Water District No. 4, Sedgwick County, Kansas**, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

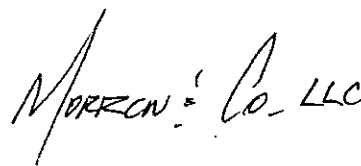
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Rural Water District No. 4** as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule I -- Statement of Insurance is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "MORRISON Co. LLC". The signature is stylized, with the first letter of "MORRISON" being a large, capital 'M' and "Co. LLC" written in a more cursive, lowercase style.

Wichita, Kansas

February 25, 2016

**RURAL WATER DISTRICT NO. 4  
SEDGWICK COUNTY, KANSAS**

**STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2015 AND 2014**

<b>ASSETS</b>		<u>2015</u>	<u>2014</u>
<b>ASSETS</b>			
Cash - Undesignated		\$ 364,378	\$ 404,304
Cash - Designated		200,001	100,000
Certificates of deposit (3 months or less)		<u>50,382</u>	<u>50,246</u>
Total Cash and Cash equivalents	(Note 2)	<u>614,761</u>	<u>554,550</u>
Certificates of deposit (over 3 months)	(Note 2)	462,527	461,538
Accounts receivable		48,164	54,957
Other receivable		0	0
Property, plant and equipment	(Note 3)	<u>977,204</u>	<u>935,709</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 2,102,656</u></u>	<u><u>\$ 2,006,754</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts payable		\$ 5,593	\$ 5,353
Accrued payroll taxes		1,028	970
Deferred lease revenue		<u>4,295</u>	<u>4,295</u>
Total Liabilities		<u>10,916</u>	<u>10,618</u>
<b>NET ASSETS</b>			
Unrestricted		2,091,740	1,996,136
Temporarily restricted		0	0
Permanently restricted		<u>0</u>	<u>0</u>
Total Net Assets		<u>2,091,740</u>	<u>1,996,136</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><u>\$ 2,102,656</u></u>	<u><u>\$ 2,006,754</u></u>

The accompanying Notes to Financial Statements  
are an integral part of this statement.

**RURAL WATER DISTRICT NO. 4  
SEDGWICK COUNTY, KANSAS**

**STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>SUPPORT AND REVENUES</b>		
Water sales	\$ 458,490	\$ 471,821
Sale of benefit units	45,900	35,100
Interest income	1,238	1,201
Tower Lease	6,221	6,221
Other	9,174	2,375
<b>TOTAL SUPPORT AND REVENUES</b>	<u>521,023</u>	<u>516,718</u>
 <b>OPERATING EXPENSES</b>		
Depreciation	88,311	86,571
Audit	3,975	3,850
Benefit Units Expense	4,133	4,095
Engineering	9,215	8,743
Chlorine	426	567
Consulting Fees	0	600
Contract Labor & Meter Reading	11,904	22,946
Director Fees	2,250	2,461
Fuel Surcharges	0	3,500
Hydmapping	2,135	2,022
Insurance & Bond	4,909	5,855
Kansas Health Board	732	374
KRWA	1,566	1,517
Lead & Copper Test	301	128
Legal	13,461	17,731
Mileage Allowance	4,496	3,585
Miscellaneous	3,897	4,008
Monthly Retainer, Storage Rental & Wireless Service	18,668	18,368
Office Supplies & Printing	3,664	2,447
One Call	1,220	1,163
Penalties	185	215
Postage	3,823	4,618
Rent	220	180
Repair & Maintenance	203,405	156,215
Salaries	26,706	25,194
Payroll Taxes	2,070	2,023
Utilities	12,431	14,922
Clean Drinking Water Fee	1,316	1,693
<b>TOTAL EXPENSES</b>	<u>425,419</u>	<u>395,591</u>
 <b>CHANGE IN UNRESTRICTED NET ASSETS</b>	 <u>\$ 95,604</u>	 <u>\$ 121,127</u>

The accompanying Notes to Financial Statements  
are an integral part of this statement.

**RURAL WATER DISTRICT NO. 4  
SEDGWICK COUNTY, KANSAS**

**STATEMENTS OF CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	Benefit Unit Certificates	Retained Earnings (Deficit)	Total Unrestricted Net Assets
<b>BALANCE, DECEMBER 31, 2013</b>	\$ 800,975	\$ 1,074,034	\$ 1,875,009
<b>CHANGE IN NET ASSETS</b>	<u>35,100</u>	<u>86,027</u>	<u>121,127</u>
<b>BALANCE, DECEMBER 31, 2014</b>	836,075	1,160,061	1,996,136
<b>CHANGE IN NET ASSETS</b>	<u>45,900</u>	<u>49,704</u>	<u>95,604</u>
<b>BALANCE, DECEMBER 31, 2015</b>	\$ <u><u>881,975</u></u>	\$ <u><u>1,209,765</u></u>	\$ <u><u>2,091,740</u></u>

The accompanying Notes to Financial Statements  
are an integral part of this statement.

**RURAL WATER DISTRICT NO. 4  
SEDGWICK COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Unrestricted Net Assets	\$ 95,604	\$ 121,127
Items not requiring (providing) cash		
Depreciation and amortization	88,311	86,571
Changes in:		
Accounts receivable	6,793	(13,610)
Other receivable	0	14,890
Prepaid expense	0	0
Accounts payable, accrued expenses, deposits and deferrals	<u>298</u>	<u>2,447</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>191,006</u>	<u>211,425</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Reinvestment in) Withdrawal from Certificates of Deposit	(989)	(1,014)
Purchase of property, plant and equipment	<u>(129,806)</u>	<u>0</u>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>(130,795)</u>	<u>(1,014)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal paid on bond maturities	0	0
Bond issue redeemed	0	0
Bonds issued	<u>0</u>	<u>0</u>
<b>NET CASH (USED IN) FINANCING ACTIVITIES</b>	<u>0</u>	<u>0</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	60,211	210,411
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>554,550</u>	<u>344,139</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 614,761</u>	<u>\$ 554,550</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
CASH PAID FOR INTEREST	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying Notes to Financial Statements  
are an integral part of this statement.

RURAL WATER DISTRICT NO. 4  
SEDGWICK COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Business*

Rural Water District No. 4, Sedgwick County, Kansas (District), is a Kansas quasi-municipal entity organized for the purpose of providing an adequate water supply to land-owners within the District. The District extends unsecured credit to its customers.

*Basis of Accounting*

The District's policy is to prepare its financial statements on the accrual basis of accounting.

*Cash Equivalents*

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. During the year, the board designated an amount of funds to be set aside for future projects. The amount is only board designated and is not considered to be restricted net assets.

*Accounts Receivable*

The District carries its accounts receivable at cost. Accounts are generally current, and the amount of doubtful accounts is immaterial.

Accounts are billed around the middle of the month for the previous month's usage. If an account is overdue, the District's policy is to wait 60 days and then send a certified letter. If there is no response, the Board votes to lock the meter. If the customer ultimately does not pay, the Board votes to forfeit the benefit unit, which inures to the benefit of the other benefit unit holders.

*Property, Plant and Equipment*

Expenditures for property, plant and equipment are recorded at cost and depreciated over the estimated useful life of each asset (3-40 years). Repairs and maintenance are charged to expense as incurred. Annual depreciation is primarily computed using the straight-line method.

*Revenue Recognition*

Water sales are recorded using the accrual method. Other income includes monies received for line extensions and road bores, etc. It is the policy of the District to include these receipts in income. The related costs for the line extensions, repairs, etc., are recognized in expense as incurred. The sale of water benefit units are recorded as income as they are sold.

Sales are recorded and presented net of any applicable taxes.



RURAL WATER DISTRICT NO. 4  
SEDGWICK COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Benefit Unit Certificates

The sales price of benefit units is considered a contribution to the District, and accordingly, is included in support and revenues but segregated from retained earnings.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

NOTE 2: DEPOSITS

The District's deposits, consisting of checking, money market funds, and certificates of deposit were substantially covered by federal depository insurance and/or collateral held by third-party banks in the District's name. The District's banks have pledged the following securities as collateral for the unsecured amount:

ID #	Security Description	Maturity	Par Amount	Dec. 31, 2015 Market Value
31331KB74	Federal Farm Credit Bank	03/29/19	650,000	\$ 655,785
3133EAGE2	Federal Farm Credit Bank	03/07/16	400,000	399,920
	Total		\$ 1,050,000	\$ 1,055,705

At December 31, 2015 and 2014, the District had bank balances as follows:

	2015	2014
Insured Amount - FDIC	\$ 250,000	\$ 250,000
Collateralized uninsured amount	\$ 832,401	\$ 772,328
Uninsured and uncollateralized amount	\$ 0	\$ 0

**RURAL WATER DISTRICT NO. 4  
SEDGWICK COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 3: PROPERTY, PLANT AND EQUIPMENT**

Depreciation is provided for on the straight-line method based on the estimated useful lives of the assets.  
A summary is as follows:

	Life Range In Years	2015	2014
Land and easements	N/A	\$ 32,593	\$ 32,593
Water distribution system	7-40	2,497,389	2,371,313
Water supply system	10	55,053	55,053
Water storage system	10-40	226,476	226,476
Controls	10	31,665	31,665
Office equipment	3-5	42,083	38,353
Construction in progress	N/A	0	0
		2,885,259	2,755,453
Less accumulated depreciation		1,908,055	1,819,744
		<u>\$ 977,204</u>	<u>\$ 935,709</u>

**NOTE 4: TAX-EXEMPT STATUS**

Rural Water District No. 4, Sedgwick County, qualifies as a tax-exempt organization for Federal and State income tax purposes. Accordingly, the financial statements do not include a provision for Federal or State income tax liability or expense.

While the District is not required to file tax returns, the activities of the District for at least the most recent three years are subject to examination by the IRS and state taxing authorities.

**NOTE 5: SUBSEQUENT EVENTS**

Subsequent events were evaluated for disclosure through February 25, 2016 and no reportable events occurred after the financial statement date and before February 25, 2016. These financial statements are available for issue February 25, 2016.

## SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 4  
SEDGWICK COUNTY, KANSAS

SCHEDULE I - STATEMENT OF INSURANCE

DECEMBER 31, 2015

Company	Coverage	Expiration	Terms	Liability Limits	Annual Premium
Employer's Mutual Casualty Company	General Liability	03/01/16	General aggregate Products Personal injury Occurrence Damage to rented premises Medical-per person	\$ 1,000,000 1,000,000 500,000 500,000 100,000 5,000	\$ 6,040
	Automobile Liability		Combined single	500,000	
	Worker's Compensation		Accident Disease-policy Disease-employee	500,000 500,000 500,000	
	Property		Blanket limit	927,120	
	Linebacker		Errors & omissions - each	500,000	
	Employee Dishonesty		Per Occurrence	10,000	
	EDP (Data Processing)		Per Occurrence	4,480	

See Independent Auditors' Report.